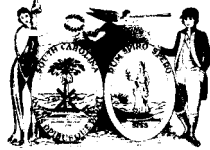


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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October 18, 2002

Mr. Douglas R. Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Cleveland, Tennessee 37320

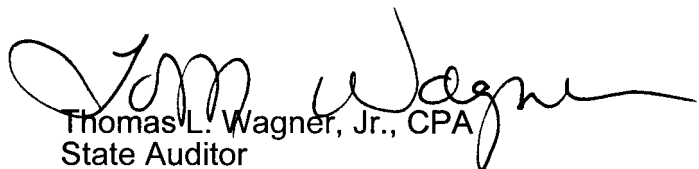
Re: AC# 3-LCH-J0 – Life Care Center of America, Inc.
d/b/a Life Care Center of Charleston

Dear Mr. Ruth:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**LIFE CARE CENTER OF AMERICA, INC.
D/B/A LIFE CARE CENTER OF CHARLESTON**

CHARLESTON, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-LCH-J0**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH**

**STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 29, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of America, Inc. d/b/a Life Care Center of Charleston, for the contract period beginning October 1, 2001 and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Life Care Center of America, Inc. d/b/a Life Care Center of Charleston is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

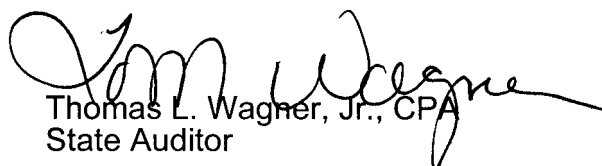
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of America, Inc. d/b/a Life Care Center of Charleston, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Life Care Center of America, Inc. d/b/a Life Care Center of Charleston dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
August 29, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

LIFE CARE CENTER OF CHARLESTON

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-LCH-J0

	Beginning- <u>10/01/01</u>
Interim Reimbursement Rate (1)	\$100.95
Adjusted Reimbursement Rate	<u>100.35</u>
Decrease in Reimbursement Rate	\$ <u>.60</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

LIFE CARE CENTER OF CHARLESTON
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 2001
AC# 3-LCH-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$47.82	\$49.92	
Dietary		9.40	10.74	
Laundry/Housekeeping/Maintenance		<u>8.02</u>	<u>9.23</u>	
Subtotal	\$ <u>4.65</u>	65.24	69.89	\$ 65.24
Administration & Medical Records	\$ <u>-</u>	<u>12.20</u>	<u>11.47</u>	<u>11.47</u>
Subtotal		77.44	<u>\$81.36</u>	76.71
<u>Costs Not Subject to Standards:</u>				
Utilities		4.08		4.08
Special Services		-		-
Medical Supplies & Oxygen		2.01		2.01
Taxes and Insurance		2.60		2.60
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$86.13</u>		85.40
Inflation Factor (3.80%)				3.25
Cost of Capital				8.45
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.65
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.90)
Nurse Aide Staffing Add-On 10/01/00				<u>1.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$100.35</u>

LIFE CARE CENTER OF CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-LCH-J0

<u>Expenses</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&HS</u>	<u>Adjustments Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,461,516	\$ 37,841 (8)	\$ 5,303 (8) 1,731 (9) 5,813 (10)	\$2,486,510
Dietary	495,107	2,586 (10)	8,967 (8)	488,726
Laundry	99,071	-	2,778 (8)	96,293
Housekeeping	197,895	-	7,772 (8)	190,123
Maintenance	143,355	-	10,817 (4) 2,135 (8)	130,403
Administration & Medical Records	680,360	1,322 (8) 5,813 (10)	30,588 (8) 22,113 (9) 325 (11)	634,469
Utilities	211,023	10,817 (4) 5,115 (6)	8,833 (5) 5,836 (10)	212,286
Special Services	-	5,137 (11)	5,137 (8)	-
Medical Supplies & Oxygen	116,009	-	4,900 (7) 2,120 (11) 4,621 (12)	104,368
Taxes and Insurance	152,488	-	17,477 (6)	135,011
Legal Fees	-	-	-	-

LIFE CARE CENTER OF CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-LCH-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	437,337	9,618 (3) <u>1,079 (13)</u>	7,868 (1) <u>748 (2)</u>	439,418
Subtotal	4,994,161	79,328	155,882	4,917,607
Ancillary	112,328	2,980 (7)	-	115,308
Non-Allowable	883,291	7,868 (1) 748 (2) 8,833 (5) 1,920 (7) 23,517 (8) <u>23,844 (9)</u>	9,618 (3) 2,692 (11) 1,079 (13)	936,632
Total Operating Expenses	<u>\$5,989,780</u>	<u>\$149,038</u>	<u>\$169,271</u>	<u>\$5,969,547</u>
Total Patient Days	<u>52,001</u>	<u>-</u>	<u>-</u>	<u>52,001</u>
Total Beds	<u>148</u>			

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LCH-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$496,032	
	Nonallowable	7,868	
	Fixed Assets		\$445,659
	Accumulated Depreciation		50,373
	Cost of Capital		7,868
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Accumulated Amortization	892	
	Other Equity	34,743	
	Nonallowable	748	
	Loan Cost		35,635
	Cost of Capital		748
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	9,618	
	Nonallowable		9,618
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Utilities	10,817	
	Maintenance		10,817
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	8,833	
	Utilities		8,833
	To remove cost not related to patient care HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LCH-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Accrued Property Taxes	1,642	
	Retained Earnings	10,720	
	Utilities	5,115	
	Taxes and Insurance		17,477
	To adjust property taxes and related accrual and reclassify expense to the proper cost center HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		
7	Ancillary	2,980	
	Nonallowable	1,920	
	Medical Supplies		4,900
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
8	Nursing	37,841	
	Medical Records	1,322	
	Nonallowable	23,517	
	Restorative		5,303
	Dietary		8,967
	Laundry		2,778
	Housekeeping		7,772
	Maintenance		2,135
	Administration		30,588
	Special Services		5,137
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable	23,844	
	Restorative		1,731
	Administration		22,113
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2304		

LIFE CARE CENTER OF CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LCH-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Other Income	3,250	
	Dietary	2,586	
	Administration	5,813	
	Nursing		5,813
	Utilities		5,836
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2304		
11	Special Services	5,137	
	Administration		325
	Medical Supplies		2,120
	Nonallowable		2,692
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Retained Earnings	4,621	
	Medical Supplies		4,621
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
13	Cost of Capital	1,079	
	Nonallowable		1,079
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$700,938</u>	<u>\$700,938</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LIFE CARE CENTER OF CHARLESTON
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-LCH-J0

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3848</u>	<u>2.3848</u>	
Deemed Asset Value (Per Bed)	37,246	37,246	
Number of Beds	<u>88</u>	<u>60</u>	
Deemed Asset Value	3,277,648	2,234,760	
Improvements Since 1981	99,049	8,176	
Accumulated Depreciation at 9/30/00	<u>(573,182)</u>	<u>(101,439)</u>	
Deemed Depreciated Value	2,803,515	2,141,497	
Market Rate of Return	<u>.058</u>	<u>.058</u>	
Total Annual Return	162,604	124,207	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	162,604	124,207	
Depreciation Expense	90,273	62,388	
Amortization Expense	-	774	
Capital Related Income Offsets	(492)	(336)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	252,385	187,033	\$439,418
Total Patient Days (Minimum 96% Occupancy)	<u>30,920</u>	<u>21,081</u>	<u>52,001</u>
Cost of Capital Per Diem	\$ <u>8.16</u>	\$ <u>8.87</u>	\$ <u>8.45</u>

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